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Subject: Governor Orders State Purchase of \$50 Million Bond to Ensure Student Loans are Available to Kentucky Students



Commonwealth of Kentucky
Office of the Governor

FOR IMMEDIATE RELEASE

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**Governor Orders State Purchase of \$50 Million Bond to
Ensure Student Loans are Available to Kentucky Students**

Beshear terms Kentucky's innovative financing measure as "the state's most important investment, an investment in Kentucky's future."

FRANKFORT, Ky. (August 15, 2008) – With the national credit crisis threatening the ability for the state to offer low-cost student loans in time for this fall's college enrollment, Governor Steve Beshear today announced that the commonwealth will purchase a \$50 million bond to ensure student loans remain available to Kentuckians from the state's only public, nonprofit student loan provider during the 2008-2009 school year.

Under this plan, the Kentucky Higher Education Student Loan Corporation, also known as The Student Loan People, has authorized the sale and issuance of a \$50 million private placement bond to the Commonwealth of Kentucky that will provide short-term bridge financing for student loans.

"Low-cost student loans enable thousands of Kentuckians to obtain a college education or technical training every year. This is critical, both to provide educational and economic opportunity for all of our citizens, as well as for the commonwealth's ability to attract the high-tech industries and the well-paid jobs of the 21st Century," said Gov. Beshear. "This bond issuance, which will be paid back on time, with full interest, represents the state's most important investment, an investment in Kentucky's future."

The bond issuance represents the culmination of months of efforts by the Beshear Administration to ensure that low-cost student loans would be available to Kentucky

students this fall. This spring, Gov. Beshear sent Finance and Administration Secretary Jonathan Miller to Washington to meet with Bush Administration officials and Members of the Kentucky delegation to Congress to develop solutions to the crisis.

Ultimately, Congress passed the “Ensuring Continued Access to Student Loans Act of 2008” in May. As part of the implementation, the U.S. Department of Education (USDE) determined lenders must obtain short-term bridge financing to initially fund new student loans before the USDE will provide liquidity to lenders for loans. Kentucky is thus far the only state in the nation to purchase a private placement bond to meet the state’s needs. Some states have looked to their public pension systems for relief; others have simply had to close down their state student loan operations for the near future, impacting the ability of thousands of young people across the country to obtain student loans.

“We are extremely grateful to Gov. Beshear for his strong and timely leadership to develop an innovative plan to meet Kentucky’s student loan needs for the upcoming year,” said Edward J. Cunningham, CEO of The Student Loan People. “While other state student loan programs are struggling, our partnership will ensure that Kentucky can continue to fulfill our public-purpose mission of making higher education more accessible to our students and families.”

Under the bond, The Student Loan People will originate student loans as normal, selling participation interests in the loans to the USDE and allowing the proceeds of the bonds to be recycled into additional loans. The cycle can be repeated as often as needed to meet the student loan demand in Kentucky.

In return, the commonwealth will receive a high quality investment security collateralized by guaranteed and federally re-insured loans, an over-collateralized reserve fund, and the commitment of USDE to purchase the loans.

The Student Loan People was created by the state legislature in 1978 to ensure funding would be available to Kentuckians by making, purchasing, and financing student loans. Like other student loan providers, the agency traditionally issued bonds, taxable and tax-exempt, in the form of auction rate securities to finance student loans. For years, this financing vehicle provided lenders with an efficient means of raising capital. However, the credit crisis essentially closed the auction rate securities market, leaving KHESLC and other Federal Family Education Loan providers across the country searching for a new student loan financing method.

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